Weekly Review
27 • 5.7.2019

BOFIT

Russia

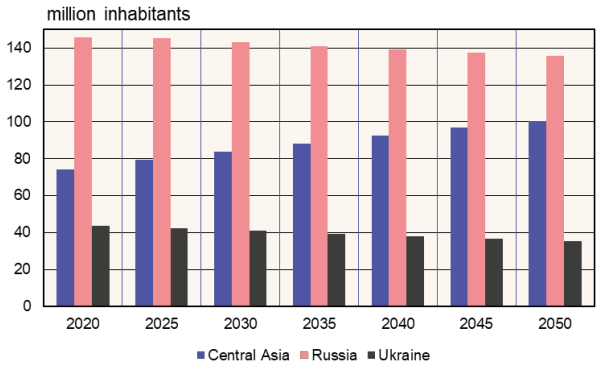
Russia's population declines, greys and increasingly packs into cities. The UN's latest population forecast shows the Russian population falling from its current 146 million to 135 million by 2050. The forecast extends to 2100, but the margin for error for the out years is significant. With that caveat, the forecast estimates the Russian population go down to 126 million people in 2100.

The average life expectancy of Russians and their living standards have risen steadily since the start of the millennium. Consumption of tobacco and alcohol products has also declined. The birth rate remains low, however, so Russians on average are getting older and the age dependency ratio continues to deteriorate even if immigration from countries close to Russia somewhat offsets the decline in population. In the 2010–2018 period, immigration to Russia was 2.2 million more than people moving out of the country. Russia's current dependency ratio of 63 means that for every 100 persons of working age, there are 63 minor children or persons over the age of 65. The corresponding figure for Western Europe is 72. Russia's dependency ratio will climb to 77 in 2030 and 83 in 2050. The ratios for Western Europe at those times will be 83 and 94, respectively.

The Russian population is becoming concentrated in cities. The populations of Moscow and St. Petersburg are expected to rise by 3–4 % by 2035, while the populations in Russia's other 13 cities with populations of more than a million will increase by about 2 % during the same period.

The differences in trends in Eastern Europe and Central Asia are striking. The populations of Russia, Belarus, Ukraine, Moldova, Armenia and Georgia are ageing and shrinking. The biggest drop is expected in Ukraine, which should fall from the current 43.7 million to 35.2 million by 2050. The total population of Central Asia (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan) is expected to rise from the current 74.3 million to 100 million by mid-century. At that time, the most populous country of Central Asia will be Uzbekistan (up from 33.5 million today to 43 million in 2050).

UN population forecasts, 2020–2050



Source: United Nations.

OPEC+ keeps production ceilings in place. At the start of this week, the so-called OPEC+ league of oil producing countries reached agreement on extending production ceilings of its members by nine months. The agreement is non-binding.

The agreement reaffirms the cuts that were agreed on last December. Then participating countries agreed to cut their daily output by 1.2 million barrels or about 3 % from the October 2018 level. Official figures show that OPEC+ met its overall target this spring. Even with the production ceilings, the oil price has remained at about 60 dollars a barrel.

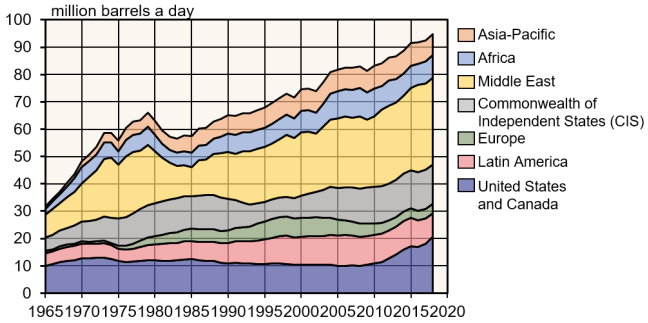
The parties to the agreement include the 14 members of the Organization of Petroleum Exporting Countries (OPEC) and ten other oil-producing countries. The lead duo are Saudi Arabia and Russia. With a few exemptions, the parties control African, Middle Eastern, Central Asian, Uralian, Siberian, Malaysian, Mexican and Venezuelan oil fields. That said, production in Venezuela and Libya has already collapsed due to domestic strife. Figures released by British Petroleum for 2018 show that OPEC accounted for 42 % of global oil output, Russia 12 % and other nine OPEC+ members 7 %.

The OPEC+ group first agreed to production ceilings in October 2016. The agreement has since seen evolving interpretations and restrictions lifted occasionally. The agreement is seen as the response of Saudi Arabia and Russia to increased North American shale oil production. With advances in shale oil extraction methods, US oil production has doubled over the past decade. The US and Canada accounted for 22 % of global oil output last year.

Although Iran has earlier refrained from committing to cuts, it in principle supports the agreement. However, it is displeased about the bilateral cooperation of Saudi Arabia and Russia. Iran says the alliance conflicts with the common goals of OPEC. Russia's activity could also be seen as part of Russia's general efforts to develop deeper economic relations with Middle Eastern countries.

Russia had little trouble complying with the production ceilings after the contamination in April of the Druzhba oil pipeline, which brings oil from the Urals to Central Europe (BOFIT Weekly 21/2019). The fouling required temporary production cuts. Many Russian oil companies are unhappy with the production ceilings. State-owned oil giant Rosneft said it does not plan to postpone new projects.

Global oil production



Source: British Petroleum.

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China

Trade talks with the US continue; China promises to speed opening of its markets. Presidents Xi Jinping and Donald Trump met on the sidelines of the G20 summit in Osaka last Saturday (Jun. 29). The US trade delegation said no further tariff hikes on Chinese imports were envisioned in the near future as the negotiations continue. China committed to buying more US farm products.

The current punitive and retaliatory tariffs imposed by the two countries on each other will remain in force, but after declaring a continuation in the talks, the US has abandoned its plans to impose further tariff hikes that would have applied to nearly all Chinese imports yet to be subject to higher tariffs. Trump also softened his position on Chinese telecom giant Huawei, announcing at a press conference that American companies could continue to sell to Huawei as long it poses no threat to national security.

There is no information yet on the length of the truce in talks. Large issues underlie the US-China dispute, including China's policies that discriminate against foreign firms, compel technology transfers and fail to protect intellectual property rights. It is unlikely that any of these problem areas will be permanently sorted out soon.

On Sunday (Jun. 30), China's National Development and Reform Commission (NDRC) issued a press release that said the list of branches off-limits to foreign firms (the negative list) will be cut from 48 branches to 40. Foreign ownership will be allowed in branches such as oil & gas exploration, gas and heat pipelines in larger cities, movie theatres, as well as broader access to the agricultural sector and mining of certain metals. The shortened list enters into force on July 30. The negative list was last trimmed a year ago (BOFIT Weekly 27/2018).

In his speech to the G20 summit participants, Xi proposed a number of measures to open up China's markets to the rest of the world, including reduced tariffs and lowering of other trade barriers, creation of new free-trade zones, and progress in an EU-China investment protection agreement as well as the free-trade agreement between China, Japan and South Korea. On Tuesday (Jul. 2), premier Li Keqiang told participants at the World Economic Forum in Dalian that China would open its markets to foreign investors and accelerate the planned phase-out to end restrictions on foreign ownership in the financial sector from 2021 to next year.

China holds back on additional stimulus measures. Although Chinese economic growth is slowing, the government has announced only very modest new measures to support the growth recently. To counteract a sharp slowdown in car sales, the government eliminated restrictions on car purchases (excluding gasoline & diesel vehicles). No new subsidies were granted, however. Instead, the NDRC encouraged provincial governments to support car and home appliance sales if they happen to have extra money available.

In line with plans announced in winter, China has relaxed its fiscal policy throughout the spring. In April, VAT for manufacturing firms was lowed from 16 % to 13 %, and VAT on construction and transport from 10 % to 9 %. All firms will have greater possibilities to make deductions on their VAT, and firms with monthly sales less than 100,000 yuan (12,900 euros) are exempted entirely from the VAT requirement (earlier the ceiling was 30,000 yuan). At the beginning of May, mandatory corporate contributions for pension, unemployment and accident insurance were lowered. Income taxes, already reduced last autumn, were also granted more exemptions from the start of January.

The tax cuts have led to a clear slowdown in the growth of government budget revenues. Even so, budget revenues and spending for the January-May period were on track to meet this year's budget released in March.

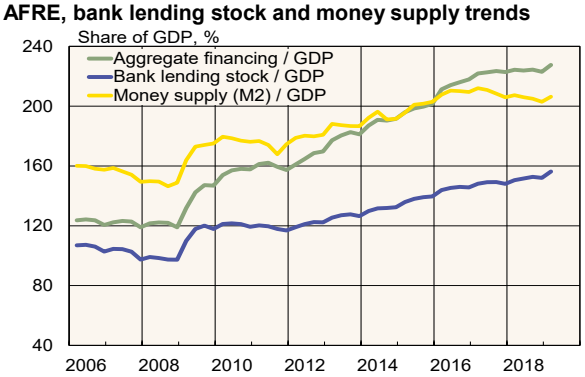
To encourage investment in infrastructure projects, local governments have been allowed to issue more special purpose bonds than earlier. Thanks to this policy, a growth in public-sector investment has picked up somewhat. However, real growth in fixed asset investment overall (including private investment) has remained modest, at around 2 % a year.

No big changes expected in China's monetary policy. On Monday (Jul. 1) at a monetary policy conference arranged by the Bank of Finland, China's central bank governor Yi Gang spoke on his nation's economic conditions and monetary policy. Yi acknowledged the downward pressures on the Chinese economy, but said that the current monetary stance of "neither too loose nor too tight" will remain in place.

The monetary policy stance this year has not been eased much (BOFIT Weekly 22/2019). For several years now, the PBoC has sought to improve access to finance and lower the costs of financing for small firms. It will continue these efforts through the use of various monetary policy instruments. Opening of China's financial sector will also continue.

China's monetary policymakers seek to hold growth in the broad money supply (M2), loan stock and aggregate financing to the real economy (AFRE) to the same pace as nominal GDP growth. China earlier talked about reducing its debt-to-GDP ratio, but current policy is aimed at just maintaining that ratio. In recent years, the stock of bank lending has grown a bit faster than official nominal GDP.

AFRE, bank lending stock and money supply trends



Sources: CEIC and BOFIT.

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